

April 8, 2016

SPECIAL REPRINT

nodal futures growth up, options and gas in the pipeline

The transition from LCH-Clearnet to its own in-house clearinghouse has been smooth, says Nodal Exchange founder and CEO Paul Cusenza, and recent growth has been impressive. Really impressive. He says we can expect all sorts of new developments at the company this year, including options and commodity futures other than power.

We also found out that Nodal President Ann Sacra recently left the building after nearly nine years with the company. Ann was a presenter at our recent *New Risk in Energy III* event in Houston. She described herself to us this week as sort of semi-retired. We tracked her down during a bike trip with her husband up the East Coast. Europe is next apparently. She says she's proud of her accomplishments at Nodal, that the place was firing on all cylinders and so and decided it was a good time for a break. She has no future plans per se, beyond some travel. She asked that we repeat the question in six months. The fact she was with the company for that long is a rarity these days, Cusenza noted, particularly in this business. And looking back nine years to the very beginning of the Nodal Exchange concept, much has changed indeed. At our recent conference, Sacra sat on a panel with presidents and other senior execs from ICE, CME and NASDAQ. For the first time that we can recall, the other execs regularly referred to Nodal as "the competition." This was some very hard-won respect. In the beginning, the other regulated exchanges viewed Cusenza's creation as little more than a nuisance; they often argued that it wasn't a futures exchange at all. Slowly and surely, volumes increased, liquidity increased tremendously and the model was generally accepted by the marketplace. Today it's a regulated DCM with its own clearinghouse. Not something you see happening at all these days, policy and costs being what they are and new entrants have been all but shut out of the sector. That's unless you're an ICE or a CME or a Nasdaq-sized entity, the hope of success in this space are pretty slim. "You certainly don't see any new clearinghouses these days," he says. "I don't really think too many people thought we'd survive in the beginning, and certainly not thrive as we are today, competing against companies with \$30 billion in market cap."

And despite the low-price environment for gas and oil, and power, volatility is up all around, which plays well into the Nodal model. We perceive that market floors are in the offing now for oil and gas, which means that prices have only one direction left to go. The increase in power market volatility and managing that risk in a general sense hasn't been lost on Nodal's competitors. This week Nasdaq Futures launched its final suite of power products covering ERCOT, the last remaining RTO that it didn't offer.

We scanned the other exchange volumes on a year-on-year basis and note that power hasn't exactly been a show-stopper for Nodal's competition. Cusenza rattled off some numbers that should make all of them pause: "Year on year, the growth has been steady. If you measure from Oct. 1, 2014, to March 31, 2015, and compare it to Oct. 1, 2015, to current, our volumes for monthly power futures are up around 55 percent. Industry-wide, I think the overall increase is only 9 percent," he says. Note that at the moment, Nodal doesn't list options or dailies. "We're gaining a lot of market share. I think the addition of the clearinghouse is a significant element in our growth. We're a lot more responsive to the industry now, since we've been able to vertically integrate our services, and the stability we provide to the industry has caused a lot of participants to shift their volumes over to us. We expect this to continue."

We noted that ICE was investing heavily these days in data and data services offerings across its exchange portfolio. CEO Jeff Sprecher has spoken recently at industry forums on how data and all things data-related should be a significant driver of growth going forward. We asked Cusenza if they were planning to pull that same page from the playbook. "Data has always been an important area of interest, certainly for a number of participants. And we provide price marks on many, many locations. Actually, I don't know of any better, more accurate source for what we provide to the marketplace. That said, this isn't a revenue generator for us, we provide these marks as a general service for our customers," he says. He adds that when you look to data as a business, "something our competitors often talk about," they're mostly focused on making money in data, for the blockbuster contracts, like gold or oil. "Power market data is a little different. Our marks are indeed valuable, we have the broadest set of data and price points and forward curves in the industry, but I've always viewed this information as a service of the exchange. I am more focused on collecting revenues based on their trading, and not the data ..."

At our New Risk in Energy event last month, Sacra noted that Nodal was planning a 2016 launch of options contracts, and possibly additional commodities.

"The big news from us is the launch of power options, before the end of the year, sometime in Q4. Once power options are launched, we would then expect to begin serving the natural gas markets with futures and options as well, in 2017," Cusenza says.

For more information on the Nodal Exchange go to www.nodalexchange.com.